

INTRODUCTION & OVERVIEW

NCI's maturation from concept to operating company has spanned nearly seven years and can be broken down into three distinct phases:

1. From approximately 2017 to May 2023, senior business leaders from around the state partnered to understand why North Carolina lags national averages in innovation commercialization. This group commissioned two different independent studies, incorporated an organization, spent nearly six years curating the framework for a strategic plan, and eventually hired a CEO and Chief Strategy Officer to work with the NCGA on a potential public-private solution that would create rural economic development across the state. These initial efforts were funded entirely with private dollars contributed under section 501(c)(3) of the Internal Revenue Code. With no financial reporting requirements on this funding, only two employees until 1Q2023, and no assurances of State support, NCI operated on a tight budget and with a network of consultants and advisors to support basic business processes and operations.
2. The Second Phase of NCI began with the adoption of the Senate's version of the FY24-26 biennium budget in May 2023. The Senate's budget contained detailed authorizing language to create a \$1.425 billion endowment for NCI's use. While far from certain, there were indications the NCGA would be favorably considering NCI, and the organization began making plans to add staff and internal capabilities. By the same token, it remained challenging to recruit for NCI's senior-most positions without the assurances of State funding or specific requirements that would need to be filled. Instead, NCI augmented its existing consultants with the addition of an Interim CFO (recently retired from a successful tenure at the NC Biotech Center and well-known to NCI's Treasurer) and increased consulting relationships with EY and Thomas, Judy, and Tucker for tax, finance, and accounting support.
3. The Third Phase of NCI began with the adoption of the budget into law on 3 October. With authorizing language and a path to State funding assured, the organization began immediately implementing plans to comply with the legislation. Over the ensuing weeks, NCI management evaluated almost a dozen firms to conduct a national search for a permanent CFO; began recruiting for a Vice President of Corporate Affairs; and released an RFP for third party investment managers as required by law. In parallel, NCI completed all of the requirements as briefed to the new Board in November regarding the receipt of FY24 funding.

While much attention has been placed on NCI's FY23 financials, several points merit consideration:

- NCI was funded entirely by private contributions solicited largely by Chair Kelly King. None of these contributions required annual financial reports, a formal review of the company's books, or an audit.
- At various points since its inception, NCI's Board was comprised of members with centuries of executive leadership experience at two major commercial banks (*Truist* and *Wells Fargo*), investment firms (*Lee-Moore Capital* and *Cherokee Partners*), and three public companies (*GlaxoSmithKline*, *GFL*, and *Liquidia*).
- With approximately \$5 million in cash, more than \$20 million in pledge commitments, and an operating budget of less than \$2 million annually, the FY23 Board relied, in part, on outside advisors, existing internal controls, the considerable experience of its management team and Board officers, and quarterly meetings to run the business.
- No irregularities were ever noted with regard to cash/cash positions, expenses, or other material matters affecting NCI's finances.
- The findings and recommended adjustments from TJT's FY23 review related to the conversion from cash to accrual accounting and the documentation and treatment of multi-year pledge commitments.

KEY EVENTS IN NCI INNOVATION FINANCE & ACCOUNTING STRATEGY AND PRACTICES

PHASE 1: INCEPTION TO MAY 2023

Objective: Maintain existing internal finance and accounting practices based on limited funds on deposit and absence of reporting, review, or audit requirements from any private donor

Limitations:

- Reliance on existing service providers, consultants
- Focus on limiting expenditures of private funding based on uncertainty of State funding/support

Key Activities:

- Decision to maintain outsourced finance/accounting services via agreement with The Results Company
- Management and TRC engaged in initial efforts to clarify existing private pledges/commitments
- NCI drafted new pledge agreement for new commitments (replaced previous “thank you” letters, emails)
- NCI made decision to move from cash to accrual accounting

PHASE 2: MAY 2023 TO OCTOBER 2023

Objective: As above, plus beginning preparations for potential receipt of State funding

Limitations:

- Continued reliance on outsourced service providers
- Continued (if not increased) need to limit spending of private funds based on indications that State funding authorities would not include overhead and administration
- Lack of clarity regarding certainty of/precise requirements associated with potential State funding, and resulting impact on recruiting of additional senior executives

Key Activities:

- Management notified Board of implications of moving from cash to accrual accounting, expected adjustments, and likelihood of impact on current/prior financial reports
- NCI engaged Thomas, Judy, & Tucker to provide consulting services for finance & accounting services
- NCI engaged Mark Stohlman to provide consulting services in preparation for potential State funding
- NCI directed Bank of America to establish a separate account for State funds
- NCI requested proposal for a formal review of FY23 financials and preparation of FY23 IRS Form 990

PHASE 3: OCTOBER 2023 TO PRESENT

Objective: Maturity of internal finance and accounting functions required to be compliant with HB259 and meet all associated reporting, audit, and oversight responsibilities

Limitations:

- Timing from adoption of law to onboarding of personnel with roles defined by requirements in the legislation
- Differing interpretations of statutory responsibilities

Key Activities:

- NCI expanded Stohlman’s consulting agreement to include Interim CFO and brought all finance and accounting in-house under Stohlman’s supervision
- NCI signed engagement Letter for TJT to conduct formal review of FY23 financials
- NCI directed Bank of America to implement rigorous controls over State funding
- Management continued efforts to document all pledges/commitments (new, revised letters as needed)
- NCI engaged Korn Ferry to begin national search for full-time CFO
- NCI launched RFP for independent third-party investment manager

KEY EVENTS IN TIMING OF STATE FUNDS

- **17 November:** NCI provides draft compliance certificate to Commerce
- **30 November:** Commerce “agree(s) NCInnovation is in compliance” to receive FY24 funding
- **7 December:** NCI provides signed compliance certificate to Commerce; Commerce certifies NCI’s certificate and sends on to State Controller; NCI Board notified with copies of materials
- **8 December:** Commerce notifies NCI the State Controller has approved the certifications and funds will be prepared
- **14 December:** Commerce notifies NCInnovation funds are ready for transfer; live check to be written week of 18 December
- **18 December:** Board Member raises questions about books and records being kept in accordance with GAAP and asserts compliance certificate was not accurate; interim CFO and accounting partner confirm they are unaware of any issues that would render NCI non-compliant with GAAP
- **20 December:** Commerce notifies NCI of House GovOps concerns about GAAP compliance; NCI affirms books and records are being kept in accordance with GAAP
- **10 January:** Commerce notifies NCI “Joe Colletti” called to convey House GovOps interprets statutory language to require GAAP requirement to be current verification, not forward-looking, and that \$25 million in private commitments must be achieved for FY24 funding (new issue)
- **~10-12 January:** Senate GovOps disputes House interpretation re: FY24 funding requirements and conveys that to Commerce
- **11 January**
 - TJT provides letter to Commerce certifying books and records in accordance with GAAP
 - Carolina Journal makes public records request for *“all documents and correspondence regarding the current receipt of funds both public and private contributions to NCInnovation. In addition, the outside accounting review of the organization’s maintenance of accounts and records include but not limited to meeting notes, and any other material related to commitments of contributions.”*
- **17 January:**
 - Copies of Commerce materials provided to House, Senate GovOps leadership
 - NCI receives inquiry from investigative reporter purported to have spoken with “multiple Board members” regarding accounting and governance issues
- **19 January:** Commerce receives call from House senior staff to remove objection to FY24 funding; wire process initiated
- **25 January:** NCI receives wire transfer from Commerce
- **31 January:** BofA statement confirms \$251,907 in accrued interest for 7 days of State funds on deposit (for month-ending 31 January), or ~\$36k per day

IMPACT: *At an average of \$36k/day in interest, NCInnovation was unable to accrue what would have been more than \$1.33 million in “investment income” during the 37 days that transpired between 18 December (when Commerce indicated a check would be ready for pick-up) and 25 January (when the funds were wired). Interest accrued in that period remained with the State and is unrecoverable by NCI.*